

**SUPPLEMENTARY SUMMONS**

**ITEM 8 (ii) RECOMMENDATIONS OF COMMITTEES**

**STANDARDS AND AUDIT COMMITTEE – 29 SEPTEMBER 2010**

a) **INDEPENDENT MEMBERS OF THE COMMITTEE**

The Committee was advised that the four year term of office for the two Independent non-elected Members of the Committee expired in May 2011.

It was necessary to decide what mechanism to use to appoint Independent non-elected Members to the Committee. Members noted that both current members wished to be considered for re-appointment.

The Committee considered that on this occasion the Council need not go beyond the statutorily required process. Members also considered that the Director of Administration and Leisure should be authorised, after canvassing the views of the Committee, to choose a Member of the Committee to interview suitable candidates, with the Monitoring Officer, if necessary.

The Committee also discussed whether there should be a maximum continuous period of office for the independent non-elected members. This could for example be set at two or three terms, or no limit imposed. The Committee did not have strong views on the subject but recommended that consideration be given as to whether a maximum term of office for Independent non-elected Members of the Committee should be imposed as part of the annual review of the Council's Constitution.

**RECOMMEND that –**

- i) the Council adopt no special measures beyond the statutory process to recruit independent Members to the Committee for the term of Office beginning in the 2011/12 Municipal Year;**
- ii) the Director of Administration and Leisure be authorised, after canvassing the views of the Committee, to choose a Member of the Committee to interview suitable candidates, with the Monitoring Officer, if necessary; and**
- iii) as part of the annual review of the Council's Constitution, consideration be given as to whether a maximum continuous period of office for Independent non-elected Members of the Committee should be imposed.**

b) **INDEPENDENT MEMBERS AGREEMENT**

Members approved a draft agreement for sharing Independent non-elected Members of the Committee with other local authorities in Surrey to take part in hearings when allegations of misconduct had been made in relation to elected Councillors.

When such hearings took place, at least one of the non-elected members had to form part of the Committee or Sub-Committee and act as Chairman. With limited resources across Surrey it was agreed that it was sensible to use the provisions under Regulation 5 of the Standards Committee (England) Regulations 2008 to allow the non-elected members to perform duties relating to hearings in other boroughs that signed up to the draft agreement, at no cost to the loaning authority, except to pay reasonable expenses to the member(s) concerned.

The independent member(s) of the Committee in one authority could be appointed to another authority for a fixed term or in relation to a specific allegation, subject to the individual's agreement to reflect the voluntary nature of the agreement and relevant training being received.

The Committee agreed that making such appointments should be delegated to the Director of Administration and Leisure to avoid the need to convene a meeting of the full Council to make the appointment.

The Committee noted that a draft procedure for making such appointments would need to be submitted to full Council for approval, as attached at Appendix 'B'.

**RECOMMEND that –**

- i) the Council enter into an agreement substantially in the form as attached at Appendix 'A', to regulate the appointment of temporary Independent Members; and**
- ii) the draft procedure attached at Appendix 'B', to allow such temporary appointments to be made without having to hold a meeting of full Council, be approved**

CORPORATE MANAGEMENT COMMITTEE – 30 SEPTEMBER 2010

c) Disabled Facilities Grant – Virement

The Committee considered a reference from the Housing and Community Services Committee which at its meeting on 8 September 2010 had recommended the virement of capital funds from the provision for new affordable housing for use on Disabled Facilities Grants (DFG), which were mandatory grants available to both homeowners and to tenants to cover the cost of works required to adapt their home to meet their needs. They were usually provided to disabled and older persons and to families with a disabled child. The works could be to the property or to the garden and the maximum amount of grant available, including fees, was £30,000. The most common works were provision of stair lifts and walk-in showers but more expensive work, such as extensions, could also be provided. The grant was means tested. Provided that the statutory criteria for disabled facilities grants were met, expenditure on DFG for both homeowners and tenants was compulsory and could not be avoided or cancelled. Delays in funding increased risks of residents suffering injuries as a result of necessary adaptations not being undertaken by the Council. The trend of an increasing demand for DFG work was common across both private and public housing and this would remain the case for future years. Officers were taking this trend into account in planning to manage this demand.

Until 1 October 2010, in respect of works of a value in excess of £10,000, a charge had been placed on the property of owner occupiers in receipt of DFG, which was recovered from the owner if the property was sold or assigned within 10 years. In view of the increasing expenditure, and the need to recoup funds to pay for new cases, the Housing and Community Services Committee had agreed that as from 1 October 2010, a charge would be placed on the property of any owner occupier in receipt of DFG for any work of a value in excess of £5,000. For all of the other DFG work, there was no charge made on the property. The Corporate Management Committee was also mindful of the need to obtain income from DFG where possible. It was therefore agreed that the Corporate Management Committee should be provided with an assessment of the possibility of placing a charge on DFG owner occupier properties for a period of longer than 10 years and/or for grants of less than £5,000, including the potential income which might result. It was also agreed that a note on the accounting treatment of DFG would be circulated to the Corporate Management Committee.

The number of DFG applications funded by Runnymede had risen over the last 3 years, from 52 in 2007/08, to 63 in 2008/09 and 77 in 2009/10. As well as an increase in cases, there had also been a rise in the number of expensive adaptations, e.g. extensions. So far in 2010/11, 57 owner occupier or private sector cases had been progressed and 10 of these were for over £10,000. The current capital budget for private sector DFG was £425,000. The current financial commitment for the 57 committed cases was £466,101. There were a further 37 applications and it was estimated that the cost of completing these could be as

high as £380,000. When added to the work completed and current commitments, this brought the total estimated expenditure required for owner occupier DFG to £846,101. For Council DFG properties, the current year's budget was £260,000 with current commitments of £145,295 and an estimated 14 outstanding cases at a cost of £222,000.

Unfortunately, the rise in applications had not been matched by increases in Government funding. The grant from the Government towards the capital cost of private sector DFG in 2010/11 was £270,000, which was the same amount received in 2008/09 and 2009/10. There was no Government funding at all for DFG work to Council housing. The Council's Officers had pressed the Government to provide more funding for DFG but had received a response stating that Runnymede was only one of many authorities facing this problem. Work on DFG prevented residents from having to be treated in hospital but the current funding arrangements also meant that local authorities were having to meet expenditure that would otherwise fall on the health services. It was agreed that representations be made to the Government in a letter to be signed by the Chairmen of the Corporate Management Committee and of the Housing and Community Services Committee, stressing the injustice of obliging local authorities to make up inadequacies in the central Government provision for this mandatory grant, and pointing out the budgetary impact on the Council.

The Housing and Community Services Committee considered that it would be necessary to increase the current budget in order to clear some of the backlog in the private sector DFGs. A full Equality Impact Assessment would have to be undertaken before any decision was taken not to increase the budget and the expenditure on DFGs could not be indefinitely deferred. In the past, the Council had obtained grant for affordable housing schemes from the Homes and Communities Agency (HCA). However, the HCA had now made it clear that in future their grant was likely to only be available on a gap funding basis. Officers were attempting to gain access to top up funding from Surrey County Council. In March 2010, the Housing and Community Services Committee had agreed that £25,000 of the housing grants budget could be used to help people move home rather than undertake more expensive works to an unsuitable property. Consideration was being given to viring all or part of this sum to provide additional monies for outstanding DFG works, if these funds were not committed by December 2010.

An assessment was made of each DFG case to see if equipment could be used instead of expensive adaptations, but this was not always the case. Officers were also considering ways in which the cost of the works could be reduced, including examining procurement methods and looking at the possibility of moving residents where this was possible. At least a third of the 37 outstanding private sector applications would need to be paid for this year and the remaining applications would need to be funded in 2011/12. The Housing and Community Services Committee had therefore recommended that an additional £100,000 was required for the 2010/11 and 2011/12 budgets in order to manage the owner occupier DFG case load, both in the short and longer term. There was currently an uncommitted provision of £1,417,000 available within the housing capital programme for expenditure on new affordable housing. The Corporate Management Committee agreed to recommend that a virement be made from this provision of £100,000 in both 2010/11 and 2011/12 to pay for the required private sector DFG works.

**RESOLVED that -**

**representations be made to the Government in a letter to be signed by the Chairmen of the Corporate Management Committee and of the Housing and Community Services Committee, stressing the injustice of obliging local authorities to make up inadequacies in the central Government provision for this mandatory grant, and pointing out the budgetary impact on the Council.**

**RECOMMEND that -**

**a virement be approved of £100,000 for both 2010/11 and 2011/12 from the provision in the housing capital programme for new affordable housing, to the capital budget for private sector Disabled Facilities Grant.**

d) 28 Runnymede Road, Egham – Sale Of

The Chairman had agreed that this item be considered as a matter of urgency in special circumstances to assist in the prompt sale of 28 Runnymede Road, Egham.

The Committee considered a reference from the Housing and Community Services Committee, which at its meeting on 8 September had declared 28 Runnemedede Road, Egham surplus to its requirements and had recommended the sale of the property and the use of the sale proceeds to enable improvement to kitchen facilities in Council houses. The sale of the property would normally be a matter for the consideration of the Economic Development Committee, but the Chairman of that Committee had agreed that this issue should be considered by the Corporate Management Committee, in order to progress the sale.

28 Runnemedede Road was a detached, Victorian property owned by the Council that had been converted into two separate flats. Adequate sound proofing had not been provided and problems of sound transfer between the two flats were significant. The installation of sound insulation had been considered, but this would be expensive and would always struggle to satisfactorily reduce noise transference between the flats. The properties were now vacant and therefore an opportunity existed to consider alterations. 28 Runnemedede Road was a substantial property, in a desirable location, and had a value significantly above the standard Council house. The cost of converting the property back into a four bedroomed house would be in the range of £45,000 to £50,000, and the end result would be a Council house worth considerably in excess of half a million pounds. Consequently, the Housing and Community Services Committee considered that a better way forward would be to dispose of the asset. In this way, the costs of bringing the property back into use would be saved, and at the same time this would generate a substantial capital receipt, which could be used for alternative projects. The Corporate Management Committee therefore agreed that the property should be sold by the Director of Administration and Leisure in such manner as he considered would optimise the receipt (i.e. obtaining the fastest possible sale with the maximum value). This would include considering the appropriate method of disposal (e.g. through an auction or through an estate agent) and the reserve (if applicable) for 28 Runnemedede Road, Egham.

One suitable alternative project for the receipt that would be generated from 28 Runnemedede Road was the kitchen refurbishment programme. It was difficult to adapt kitchens in some Council pre-war tenant properties so that they complied with the requirements of new regulations relating to the siting of cookers. In Victory Park Road, Addlestone, the Council had sought to overcome this problem by taking the opportunity to refurbish the bathroom which was situated next to the kitchen, by building a small extension. The cost of building the extensions averaged £40,000. The kitchen refurbishment programme had since moved on to the Chertsey area. If extensions were to be built to every property within the programme area, the additional cost would be in the region of £800,000 which was beyond the provision in the HRA Business Plan. It was agreed that the Committee would be provided with an extract from the HRA Business Plan on the kitchens and bathroom programme, so that they could note the current position. In an attempt to reduce costs, Officers had drawn up an alternative kitchen arrangement, trialed in an empty property, which managed to conform to the new regulations but obviated the need for an extension. By blocking off one of the two doors, and reconfiguring the windows, it was possible to create a small working kitchen. The cost of the work to achieve this revised arrangement was approximately £12,000, which was £7,500 more than a standard kitchen refurbishment, but significantly cheaper than building an extension.

However, Officers were concerned that, having carried out building extensions at Victory Park Road, expectations in Chertsey had been raised. The alternative kitchen arrangements met the new regulations, but they did not provide the additional space achieved by building an extension. It was agreed that the Committee should be advised whether it was possible to reduce tenants expectations of kitchen improvements, including reporting any discussions with the tenant representative on the Housing and Community Services Committee on that issue, with a view to releasing some of the proceeds from the sale of 28 Runnemedede Road for housing projects apart from the kitchen refurbishment programme.

To date, 25 to 30% of tenants had undertaken their own kitchen improvements, and had consequently declined the opportunity to have their homes included in the Council's kitchen refurbishment programme. If this trend were to continue, the overall cost of extensions would fall to a sum closer to £500,000, which the capital receipt from 28 Runnemedede Road could meet. A consultation exercise would be undertaken to establish the tenants' requirements and to see if extensions could be produced with the funds available. It was agreed that the Committee would be advised of the possibility of the Council providing a contributory grant to tenants who wished to undertake their own kitchen improvements.

It was noted that disposal of the property would release a housing capital receipt which was subject to the housing capital receipt pooling rules which required the Council to pay a specified proportion (75% in respect of dwellings) to the Government. However, the Authority could keep the full receipt if it chose to use the receipt for housing and/or regeneration purposes. The Corporate Management Committee considered that it would be appropriate to use the receipt for the kitchen refurbishment programme, but mindful of the fact that the Council had many calls on its resources, agreed to also recommend that the required capital estimate be approved in such a manner that Officers would be given the option of using the receipt for other housing improvement or regeneration projects.

**RESOLVED that –**

**the Director of Administration and Leisure be authorised to sell the Council's interest in 28 Runnemedde Road, Egham in such manner as he considers will optimise the receipt; and**

**RECOMMEND that -**

**a capital estimate be approved in the housing capital programme in a sum not exceeding the sale proceeds of 28 Runnemedde Road for the purposes of extensions to Council housing property to enable improvement to kitchen facilities, or for the purposes of other housing improvement or regeneration projects, to be financed from the sale of 28 Runnemedde Road.**

- e) Interim Treasury Report And Proposed Revised Annual Investment Strategy For 2010/11  
(Ref: Minutes of Corporate Management Committee, 4 February 2010, page 518, para. 557)

The Committee considered a report on treasury activity for the first five months of 2010/11 and changes to the Council's criteria for making investments and the consequent revision to the Annual Investment Strategy for 2010/11.

The Council's treasury management policies required the Director of Finance to present a mid-year report to the Committee. Although this report was for the first five months of the year only, it did give a timely opportunity to combine the information contained in a mid-year review with the proposals for changes to investment criteria. Local authorities had to draw up an "Annual Investment Strategy" for each financial year which had to be approved by full Council. This strategy could be revised at any time, but full Council had to approve the revisions. The Council's Treasury Management Strategy and the Annual Investment Strategy for 2010/11 had been considered by the Committee at its meeting on 4 February 2010 and subsequently approved by full Council on 9 March 2010. The Government's statutory guidance stated that it was for each authority to determine what they considered as high credit quality in their Annual Investment Strategy. The Council used credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investments and the credit worthiness of counterparties. The credit ratings were supplied via the Council's treasury management consultants. The Annual Investment Strategy included a table that compared ratings used by the credit rating agencies to enable the appropriate assessment to be made. It was recognised that credit ratings were only a guide to the credit-worthiness of counterparties and other factors (e.g. credit default swap prices and the financial press) were considered when making investment decisions. The Committee considered that a variety of sources should be considered in deciding on appropriate investments.

At its meeting on 8 July 2010, the Overview and Scrutiny Select Committee had considered the annual report on the Council's treasury management activity in the 2009/10 financial year. Although the Committee had no recommendations to make to the Corporate Management Committee it had a number of observations which it was agreed should be included in the next report to the Corporate Management Committee on treasury management. It was suggested that rather than relying purely on credit ratings, the test of a building society's stability might be an assessment of the amount of money it obtained from wholesale markets and the amount of income it obtained from mortgage portfolios. It was noted that the Council was not currently investing in gilts because it was not considered that gilts would provide a good return at present. However, the Overview and Scrutiny Select Committee suggested that short-dated gilts should be kept under review as a potential future investment. In accordance with the revised governance arrangements approved by the

Council in March at its meeting on 7 October 2010, the Overview and Scrutiny Select Committee would be considering the Interim Treasury Report and proposed revised Annual Investment Strategy for 2010/11.

A list of investment activity for the period 1 April to 1 September 2010, the maturity profile of the Council's investment portfolio at 1 September 2010 and a list of the investments held at 1 September 2010 were noted. The one remaining longer-term (over 1 year) maturity was a holding arising from the investment strategy approved in 2007 to hold a proportion of investments in longer term maturities. These investments were made before the "credit crunch" and in terms of the interest rate, the timing of the investments was beneficial. However, mainly because of the considerable uncertainties over credit-worthiness of institutions, no new long-term investments had been made since September 2008. Interest rates continued at low levels, both for short-term and longer periods. With inflation running at 3.1% using the CPI measure and 4.7% using the RPI measure (August 2010 indexes), the current outlook for savers was negative. Short-term interest rates had now been at low levels for some time, with the Base Rate remaining at 0.5% since 5 March 2009 and showing seemingly little prospect of changing significantly in the next few months. The market rates available on 20 September 2010 were noted.

The option of lending for longer terms would provide better returns for the Council. However, the number of counterparties with whom longer-term investments could be made in accordance with the credit criteria in the Annual Investment Strategy was very limited. Although it would be possible to buy longer-term government securities, the yields on these were not attractive, especially given the outlook on inflation. In other words, the interest rate risk was high, i.e. there was a risk that interest rates would increase thus leaving the Council holding an investment at an unattractive rate. In particular, it was possible that the current rates of inflation would not significantly fall (or might increase) and this would strongly indicate that interest rates would need to increase at some point in time. Therefore, new investments were currently limited to terms of up to 12 months, but at the cost of (hopefully short-term) lower investment income.

The estimate for 2010/11 was based on achieving an overall return on investments of 3.0%. It now seemed probable that the overall return would be nearer 2.5% and that this would depress investment income from the Budget figure of £360,000 to around £300,000. However, the interest accruing to the General Fund arising from the transfer of £2m of balances from the Housing Revenue Account would substantially make good this shortfall.

The Annual Investment Strategy limits for investments with UK banks had been set to enable short-term investments to be made with the main UK banks and their subsidiaries. The high level of support offered by the UK government to certain UK banks was seen as a reasonable security for lending to those banks. However, since the Strategy had been approved, the Standard and Poor's rating agency had lowered the short-term rating of the Lloyds Banking Group and the Royal Bank of Scotland Group. The change meant that the Council was currently unable to invest with the banks in these groups (i.e. Bank of Scotland, Lloyds Bank, National Westminster, and Royal Bank of Scotland). This was despite these banks being substantially backed (and part-owned) by the UK Government and therefore it was very unlikely that they would be allowed to default. Furthermore, the Council's treasury management consultants advised that long-term credit ratings were now a more appropriate guide to the credit quality of banks and building societies. This was because long-term ratings provided a finer grading scale – there were 10 long-term investment grade ratings but only 3 or 4 short-term ratings. Therefore, it was proposed to change the Annual Investment Strategy to use long-term ratings to measure the credit quality of UK banks, even for short-term investments.

It was also proposed to revise the Annual Investment Strategy to enable investments with the Lloyds Banking Group and the Royal Bank of Scotland Group to be resumed. The proposed change was to allow investments of up to £2.5m for up to 12 months duration to be made with UK banks holding a long-term credit rating of no lower than A+ or equivalent, with lower limits and terms for banks with a rating of A or A-. The definition of "A" was for institutions of high credit quality with a low default risk, and A- was 3 levels higher than the lowest rating classified as investment grade. The use of the A- grade would also address the anomaly that the Co-operative Bank (the Council's bankers) was currently rated below the Council's minimum credit rating for making short-term investments.

The number of mergers and other proposals to restructure building societies pointed to retaining a cautious approach to making investments with this sector. However, the UK Government would wish to avoid the turmoil that resulted during the demise of Northern Rock, and it seemed unlikely that a building society would be allowed to completely fail. The present level of scrutiny, both regulatory and market driven, on the building society sector also reduced the risk of a society folding. The current limits were restrictive because there was only limited demand by building societies for deposits for periods of 3 months or shorter. Therefore, it was proposed to revise the Annual Investment Strategy to extend the credit parameters for investments with building societies. As for banks, it was now proposed to use long-term credit ratings to measure the credit worthiness of societies and to allow investments of up to £2.5 million for up to 12 months duration to be made with UK building societies holding a long-term credit rating no lower than A- or equivalent. Building societies were rated more harshly than banks mainly because of their focus on a single product (mortgages). Therefore, it seemed appropriate to recognise that building societies that achieved at least an investment grade rating of BBB also represented a good short-term credit risk. Investments would not be made with building societies that held a rating below BBB, or were on negative outlook and held a BBB rating. It was also proposed to modestly increase the permitted maximum term (for smaller societies) and amount (for high rated societies) of investments.

A limited relaxation in the maximum limit criteria for lending to UK building societies was now proposed. A balance had to be struck between the desire to have a reasonable number of available counterparties and to obtain a fair rate of return, with the need to make sure that the Council's investment parameters minimised the risk of credit default. The proposed criteria were still rigorous with, for instance, only 2 building societies meeting the highest category, a further 1 the second highest category, and a further 3 the third highest category. For building societies without a credit rating, it was proposed to increase the maximum term from 3 to 4 months. There did appear to be more market demand for 4 month deposits and this change would enable the Council to make investments with these societies without significantly increasing risk. The previous £1bn and £750m asset size limits added little in terms of risk management and would be removed. A building society would still require at least £500m of assets before an investment could be made, as at present. For both UK banks and building societies, the credit criteria for long-term (non-specified) investments remained unchanged.

In the event that the Government proposed to remove support in part or in whole, or otherwise proposed change to the structure of the regulatory system either for banks or for building societies, Officers would exercise caution accordingly. However, any such changes would be introduced over a period of time and therefore it was highly unlikely that there would be a need to take emergency action to recover any investments.

In March 2010, the Council had agreed that it was prudent to recommence lending to foreign banks, but subject to higher credit criteria than UK banks and for short-term duration only. This change had been made with a view, in particular, of making investments in the deposit accounts of the UK based banks that formed part of the Santander Group. However, the sovereign credit rating of Spain had been lowered shortly after the new strategy had been approved and in recent months, the risk in investing in foreign banks seemed to have increased, mainly reflecting concern over sovereign ratings. Given that security of funds was the main objective of the Council's treasury strategy, no investments would be made with foreign banks at this time. However, for the sake of completeness, the revised Annual Investment Strategy also made the change to using a long-term rating to measure the credit worthiness of foreign banks, and these were set at the higher level of AA-. The Committee suggested that Officers might look at investing in foreign banks, where foreign bank assets were ringfenced in the UK, e.g. Santander.

The Council had successfully used three money market funds for short-term investments. These funds were all AAA rated and therefore provided the highest credit quality. These funds were designed for short-term liquidity needs and paid a return around base rate (0.5%). These funds offered immediate access to capital and very low possibility of capital loss. It was possible to make investments in longer duration AAA rated funds offering a range of longer-term securities and the prospect of a greater return. Access to the funds was after a notice period, usually one week, although it was possible to invest in such funds for fixed terms up to 6 months. Returns could be more volatile, especially over short periods. However, these funds provided secure access to a range of diverse instruments and were an alternative to making long-term investments

in individual institutions. Some of the funds also had the benefit of not locking the Council into fixed interest rates, thus mitigating interest rate risk. The Council's treasury management consultants had suggested that the Council considered using these funds as an alternative to investing for longer periods with individual institutions. The current Annual Investment Strategy enabled investments to be made with highly liquid money market funds up to £3 million a fund. It was proposed to add to this to allow investments in longer duration funds to be made up to £2 million a fund.

A proposal to establish a public sector money market fund had been announced at the conference of the Local Government Association (LGA) in June. Subject to regulatory approval, the fund would be managed by CCLA Investment Management, which currently managed a range of funds for the local government and charity sector. The fund would be UK domiciled and carry an AAA credit rating. Investment returns would be modest – as was the case with other short-term funds - but it was hoped to keep management fees at a low level and there would be a focus on the needs of local authorities. The timetable for the start of the fund was not yet established. This could be a very useful addition to the options available for investing short-term cash holdings. CCLA required pledges of at least £150m as seed funding to enable them to start the fund. Therefore, the Director of Finance had written to CCLA stating an intention to subscribe £1,500,000 from Runnymede Borough Council as a seed fund investor. The Annual Investment Strategy already contained the necessary authority for participation in this new fund.

In relation to the comments made by the Overview and Scrutiny Select Committee in July, the Committee noted that the yields on gilts were still modest and that they therefore would not be an appropriate investment for Council funds at the present time, even for short term deposits.

The Committee agreed to recommend for approval the revised Annual Investment Strategy with the changes highlighted, as set out in Appendix 'C' attached. The two main changes were to use long term rating criteria to guide short term investments and to lengthen some of the terms of the investments. However, tight controls still remained. The Strategy took account of the current and proposed investment guidance issued by the Government.

**RECOMMEND that -**

**the proposed revised Annual Investment Strategy for 2010/11, as set out in Appendix 'C' attached, be approved.**

Overview and Scrutiny Select Committee – 7 October 2010

f) Interim Treasury Report and Proposed Revised Annual Investment Strategy for 2010/11

The Committee considered a report that had been submitted to the Corporate Management Committee on 30 September 2010 on treasury activity for the first five months of 2010/11 and on proposed revisions to the Annual Investment Strategy for 2010/11. The Committee noted the current position on Council investments and considered the proposed revised Annual Investment Strategy which aimed to increase yield without increasing risk, by using long term rating criteria as a measure of the credit worthiness of counterparties and by lengthening some of the terms of the investments, while retaining tight controls. The Committee noted that a significant amount of Officer time was spent on making investments, revising the Strategy and compiling reports on investment for the Corporate Management Committee.

The Overview and Scrutiny Select Committee noted the Council's investments made from 1 April to 1 September 2010 and the Council's investments as at 1 September 2010. Levels of interest received from investments made during 1 April to 1 September were low, with 1% only being achieved on two occasions. Rates of interest achieved through the Government's Debt Management Office were extremely low, even by current standards, so this investment vehicle was avoided where possible. The longer term investments made before the "credit crunch" with the Coventry, Kent Reliance and Nationwide (formerly Dunfermline) Building Societies had achieved good rates of return. The total value of the Council's investments at 1 September 2010 was £27.5 million, £9 million of which was invested in money market funds which had proved very useful in managing short term investments. Investment in longer duration money market funds was proposed in the revised Investment Strategy.

The revised Annual Investment Strategy would enable investment with Lloyds Bank and the Royal Bank of Scotland to be resumed. Limits for short term investments with UK building societies holding high credit ratings would be increased from £2m to £2.5m. For building societies without a credit rating, it was proposed to increase the maximum term from 3 to 4 months as there did appear to be more demand from building societies for 4 month deposits. The proposal to establish a public sector money market fund (the Public Sector Deposit Fund) was a welcome development as management fees would be low and there would be an emphasis on the needs of local authorities. The Committee considered that this Fund should be set up as soon as possible and was concerned that there was no timetable for the instigation of the Fund.

The Committee noted that longer term investments seemed to offer low value at present. Confidence in longer term investment was proving slow to return in the wake of the collapse of the Icelandic banks. The recent financial turmoil in Ireland illustrated the need for caution in making investments.

It was noted that the Corporate Management Committee had recommended that the proposed revised Annual Investment Strategy for 2010/11 be approved. The Corporate Management Committee had considered that a variety of sources should be considered in deciding on appropriate counterparties, not just credit ratings. This would include newspapers and credit default swap rates. The Overview and Scrutiny Select Committee noted that Officers did use a range of information when making investment decisions. When examining credit ratings, Officers looked at all three credit rating agencies and, for each counterparty, used the lowest rating provided by the three agencies.

It had also been suggested at the Corporate Management Committee that Officers might look at investing in foreign banks, where the assets of those foreign banks were ring-fenced in the UK. If this change were to be made, this would allow investment to be made in the UK arms of the Santander bank. The Overview and Scrutiny Select Committee noted that Officers were reviewing this aspect of the Strategy and would report on this issue as part of an overall review of the Strategy which would be submitted to Members for consideration in the Spring of 2011.

**RECOMMEND that –**

**the proposed revised Annual Investment Strategy for 2010/11 be approved.**